

Operator: Greetings, and welcome to the Matthews International Corporation Second Quarter Fiscal Year 2020 Financial Results Call.

At this time all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce Mr. Bill Wilson, Senior Director of Corporate Development. Thank you, sir, you may begin.

Bill Wilson, Senior Director, Corporate Development: Thank you, Michelle. Good morning, everyone and welcome to the Matthews International Second Quarter 2020 Earnings Call. This is Bill Wilson, Senior Director of Corporate development. With us today are Joe Bartolacci, President and Chief Executive Officer, and Steve Nicola, our Chief Financial Officer.

Before we start, I would like to remind you that our earnings release was posted on our website www.matw.com in the Investor section last night. The presentation for our call can also be accessed in the Investor section of the website.

As a reminder, any forward-looking statements in connection with this discussion are being made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Factors that could cause the Company's results to differ from those discussed today are set forth in the Company's annual report on form 10-K and other periodic filings with the SEC. In addition, we will be discussing non-GAAP financial metrics and encourage you to read our disclosures and reconciliation tables carefully as you consider these metrics. In connection with any forward-looking statements, and the non-GAAP financial information, please read the disclaimer included in today's presentation materials that are located on our website.

Now I'll turn the call over to Steve.

Steven Nicola, Chief Financial Officer: Thank you Bill. Good morning. Please start with **Slide 4**.

For the Fiscal 2020 second quarter, the Company reported consolidated sales of \$375 million compared to \$391 million a year ago. Year-to-date Fiscal 2020 consolidated sales were \$740 million compared to \$766 million last year. For both the quarter and year-to-date periods, Fiscal 2020 reflected higher sales for the industrial technology segment compared to a year ago, offset by lower sales in the SGK brand solution segment. Fiscal 2020 sales for the memorialization segment were relatively consistent with the same periods last year. All of our segments experienced some level of commercial impact from COVID-19 during the second quarter, although these impacts are difficult to quantify.

On a GAAP basis, the Company reported a loss per share of \$2.77 for the current quarter compared to income of \$0.48 per share last year. The current quarter loss on a GAAP basis primarily resulted from a goodwill write-down of \$90.4 million, or \$2.63 per share. In addition, non-cash intangible asset amortization expense was \$17.9 million or \$0.43 per share for the Fiscal 2020 second quarter, compared to \$9.5 million or \$0.22 per share a year ago. The current quarter also included costs of \$11.3 million or \$0.27 per share, primarily associated with strategic initiatives, most of which related to our cost reduction program. The second quarter last year included costs of \$7.3 million or \$0.70 per share, primarily related to acquisitions, ERP implementation and cost reduction initiatives.

For the six months ended March 31, 2020, the Company reported a GAAP loss per share of \$3.11 compared to income of \$0.58 per share last year. On a non-GAAP basis, adjusted earnings were \$0.63

per share for the Fiscal 2020 second quarter, compared to \$0.90 last year. The decline primarily reflected three factors.

- First, a significant reduction in discreet tax benefits for the current quarter compared to a year ago.
- Second, the current quarter included an investment loss of \$1.1 million, compared to investment income of \$2.1 million a year ago. Investment income primarily reflects the performance of investments held in trust for certain of the Company's benefit plans, which were significantly impacted by the market downturn in March 2020; and
- Third, lower operating income for the current quarter compared to a year ago, reflecting the decline in consolidated sales.

Year-to-date adjusted earnings per share were \$1.10 as of March 31, 2020 compared to \$1.40 last year.

With respect to the goodwill write-down, COVID-19 represented a triggering event for the performance of an impairment analysis for the goodwill reporting units within the SGK brand solution segment. Based on our assessment of the potential impacts of COVID-19 on their estimated future earnings and cash flows, the Company recorded a charge of \$90.4 million to reduce the value of the segment's goodwill.

Interest expense for the Fiscal 2020 second quarter was \$9.6 million compared to \$10.3 million a year ago, reflecting lower average debt and a decline in average interest rates for the current quarter relative to the same quarter last year. For the six months ended March 31, 2020, interest expense was \$18.9 million compared to \$20.6 million last year.

Other income and deductions net for the quarter ended March 31, 2020 represented a decrease in pre-tax income of \$1.8 million compared to \$1.1 million for the same quarter last year. Other income and deductions net for the six months ended March 31, 2020 represented a decrease in pre-tax income of \$4.7 million compared to \$2 million last year. Other income and deductions include the non-service portion of pension and post retirement costs. For the quarter ended March 31, 2020, the non-service portion of pension and post retirement cost was \$2.2 million compared to \$970,000 last year. For the six months ended March 31, 2020, the non-service portion of pension and post retirement costs was \$4.5 million compared to \$1.9 million last year.

Consolidated income taxes for the three months ended March 31, 2020 were a benefit of \$11.1 million, compared to a benefit of \$165,000 for the same quarter last year. The income tax benefits for the current quarter primarily reflected the Company's pre-tax loss on a GAAP basis.

The Company reported an overall tax benefit in the second fiscal quarter last year despite pre-tax income as a result of significant tax benefits discrete to that quarter.

Consolidated income taxes for the six months ended March 31, 2020 were a benefit of \$16.5 million compared to an expense of \$440,000 for the same period last year.

Please turn to **Slide 5** to begin a review of our segment results. For the SGK brand solution segments sales were \$173 million for the current quarter compared to \$191 million a year ago. The decline primarily reflected lower sales in the segment's principal geographic markets, including the U.S, Europe and Asia Pacific. In addition, sales of cylinder surfaces and engineered products decreased from the same quarter last year. All regions reported some level of commercial impacts from COVID-19, although it is difficult to quantify. These declines were partially offset by higher sales for merchandising solutions compared to the same quarter last year.

For the six months ended March 31, 2020, sales for the SGK brand solution segment were \$348 million compared to \$376 million last year. In addition to the impact of the recent quarter, the segments year-to-date sales were unfavorably affected by the previously reported loss of a significant U.S brand client account which occurred in the first fiscal quarter last year.

Changes in foreign currency exchange rates had an unfavorable impact of \$3.2 million on the segment second quarter sales compared with the same quarter a year ago and \$5.1 million on a year-to-date basis.

Fiscal 2020 second quarter Adjusted EBITDA for the SGK brand solution segment was \$22.2 million compared to \$29.4 million a year ago. Adjusted EBITDA for the SGK brand solution segments for the six months ended March 31, 2020 was \$41 million compared to \$56.7 million a year ago. The quarter and year to date declines primarily reflected the impact of lower sales, combined with an unfavorable product mix shift and pricing. The unfavorable shifts in product mix partly reflected lower tobacco related sales, which generally have higher incremental margins. In addition, the year-to-date Adjusted EBITDA margin for the current period reflected the unfavorable impact of the brand client account loss, which also had higher incremental margins. Our recent cost structure initiatives partly mitigated these declines.

Please turn to **Slide 6**. Memorialization segments, sales for the current quarter were \$162 million, which was relatively consistent with the second fiscal quarter last year. Similarly, for the first six months of Fiscal 2020, memorialization segment sales were \$316 million compared to \$316 million last year. Higher cremation equipment sales and improved price realization for caskets and memorial products were offset by the impact of lower unit sales volumes for caskets and memorial products. For the recent quarter, international memorial product sales were lower reflecting the impact of COVID-19, particularly in the Italian market. Changes in foreign currency exchange rates had an unfavorable impact of approximately \$389,000 on the segment sales compared with the same quarter last year, and \$711,000 on a year-to-date basis.

Memorialization segment Adjusted EBITDA for the Fiscal 2020 second quarter was \$35.2 million compared to \$35 million a year ago. For the first six months of Fiscal 2020, memorialization segment Adjusted EBITDA was \$65.3 million, which was relatively unchanged from the same period last year. The current year's results primarily reflected the benefits of higher domestic revenues and productivity initiatives offset by higher materials and freight costs.

Please turn to **Slide 7**. Industrial technology sales for the Fiscal 2020 second quarter were \$40.1 million compared to \$38.6 million a year ago. For the six months ended March 31, 2020, industrial technology sales for Fiscal 2020 were \$75.8 million compared to \$73.6 million a year ago. Higher product identification sales were partially offset by lower sales of warehouse automation systems. The decline in warehouse automation systems primarily resulted from project delays by customers as backlog in this business continues to remain solid. In addition, the segment small operation in China was impacted during the recent quarter due to COVID-19. Changes in foreign currency exchange rates had an unfavorable impact of \$336,000 on the segment sales compared with the same quarter last year, and \$658,000 on a year-to-date basis.

Adjusted EBITDA for the industrial technology segments for the current quarter was \$6.2 million compared with \$4.8 million a year ago. Year-to-date the segment's Adjusted EBITDA was \$10.5 million compared to \$8.4 million last year. The increase in the segments Adjusted EBITDA for the current year primarily reflected the sales increase and lower product development costs.

Please turn to **Slide 8**. Cash flow from operating activities for the Fiscal 2020 second quarter was \$60.6 million compared to \$36.9 million a year ago. Cash flow from operating activities for the first six months of Fiscal 2020 was \$66 million compared to \$45.3 million a year ago. The significant increase from last year

primarily reflected the favorable changes in our working capital, particularly accounts receivable and accounts payable.

As a result of the Company's strong operating cash flow during the Fiscal 2020 second quarter, the Company reduced its consolidated net debt during the Fiscal 2020 second quarter by \$34 million. The leverage ratio covenant in our domestic credit facility is based on net debt, which represents outstanding debt less cash. Our outstanding debt level declined slightly from \$967 million at December 31, 2019 to \$966 million at March 31, 2020. However, our consolidated cash position increased from \$39 million at December 31, 2019 to \$72 million at March 31, 2020. Due to current economic conditions, we chose to maintain a higher level of cash in the near term. The Company intends to continue to focus Fiscal 2020 cash flow on that reduction.

As previously reported, we renewed our domestic revolving credit facility and accounts receivable securitization facility in March 2020. The renewed revolving credit facility provides for borrowings up to \$750 million and has a five-year term. The timing of this renewal reflects the Company's routine process of renewing this facility approximately one year prior to maturity, as the previous facility was scheduled to mature in April 2021. The Company reduced the size of this facility from \$900 million, as the previous facility was put in place prior to the Company's \$300 million bond offering in December 2017. The renewed revolving credit facility generally maintains the same terms and interest rate structure of the previous facility and provides for a temporary increase in the net leverage ratio covenant in light of current global economic conditions.

Approximately 31.3 million shares were outstanding at March 31, 2020. During the recent quarter, the Company purchased only 20,750 shares under its share repurchase program. Year-to-date, the Company has purchased only approximately 73,000 shares, a significant portion of which related to fulfilling required withholding tax obligations in connection with equity compensation.

With respect to the Company's outlook for the remainder of this fiscal year, the Company is withdrawing its earnings guidance for Fiscal 2020 as a result of COVID-19 and the uncertainty of the extent of its impact on our markets and industries. As Joe indicated in our earnings release, COVID-19 has impacted each of our segments to varying degrees, and the business environment continues to change.

However, we completed the Fiscal 2020 second quarter with strong operating cash flow, resulting in good liquidity and capital availability going into our third fiscal quarter. Cash and working capital management is a high priority in these challenging conditions. For example, we recognize accounts receivable collectability may be a concern in this economic climate and intend to closely monitor our accounts. In addition, we will continue to emphasize debt reduction.

Finally, the Board last week declared a dividend of \$0.21 per share on the Company's common stock. The dividend is payable May 18, 2020 to stockholders of record May 4, 2020.

This concludes the Financial Review, and Joe will now comment on our Company's operations.

Joseph Bartolacci, President, Chief Executive Officer: Thank you, Steve. Good morning. First off, I'd like to thank all of our employees around the world for their commitment and significant effort during these uncertain times. They have all responded with great resolve in dealing with unprecedented challenges.

Like many other companies last quarter, we began a challenging time for our business. Because of our vast geographic footprint, we began to feel the impact of the coronavirus in our Chinese locations in January. That early warning allowed us to begin preparations which today is resulted in more than half of our 11,000 global workforces being able to work from home. I cannot stress enough the significance of this effort, because in a matter of weeks, major production centers for our brand business and back office support for our global operations were forced to shut down due to governmental stay at home orders.

Most of our brand production employees were prevented from returning to work, and we were forced to find a way to allow them to work from home to keep our business operating.

This quick response was made possible by our significant investment over the past few years in our global ERP. Similarly, that early warning allowed us to repair our memorialization and our industrial automation businesses to make accommodations to continue to operate as an essential business in this new environment. Moreover, during the quarter, the latter part of the quarter our funeral home products teams in the New York City region, led by the Pontone family, began to feel the impact of the virus on a personal basis, as they worked endless hours, seven days a week from late March through today to assist the funeral industry in that region to deal with the calamity that has occurred. I am proud to see how our teams are responding because of their effort, we not only protected our employees, but we delivered good relative performance.

When you consider the individual businesses within the segments, each major business delivered solid EBITDA performance except one. Our businesses responded well to our cost containment efforts while we focused our efforts on cash conversion, which allowed us to reduce our net debt by over \$30 million. As you might expect, this was hard work because our clients and vendors were focusing their own cash efforts as well.

Looking forward, our ability to forecast is cloudy, but we are confident of our strong positions and resilient markets. Throughout this pandemic and to this day, substantially all of our businesses remain open.

Looking at our current performance, our memorialization segment continues to see higher volumes in our funeral home products division. While our cemetery products division is seeing a temporarily low order rate, as national stay at home orders have prevented families from visiting the cemetery to place orders for markers. Our experience would suggest that orders for those unmarked graves will come as lock down pressures ease and we expect a more normalized order rate starting by the end of this quarter. Similarly, our environmental solutions business has seen increased orders for both new cremation equipment and maintenance services, as providers around the world realize the need for more and better performing equipment during these challenging times. Although these orders have longer lead times, as the leading provider of cremation equipment in the world we expect our business to be strong for the foreseeable future.

As discussed above, our brand business has successfully transitioned to work from home arrangements around the world to allow our customers to continue to adapt their product offerings. While COVID-19 has had an impact on the operating results in parts of this segment, we continue to see relatively stable work from our largest CPG clients, especially those that who are focused in the food, household goods and pharmaceutical industries. As our clients adjust their product lines or respond to the changing demand of the consumer in these unique times, we are their providers of packaging related services around the world.

Our private label brand business is slow during this period due to the all-out effort required by retailers just to keep their shelves stocked. There's little time for retailers to focus on adjusting their product offerings as they see unprecedented volumes through their stores. We expect our private label business to grow significantly when conditions improve, as retailers also respond to changing consumer demands.

Even our merchandising business, which delivers in store displays has responded admirably. As you might expect, their revenues have recently started to trend lower, but they have begun to produce face shields with their nimble workforce, which will help mitigate the lost revenue while we wait for retail stores to reopen.

Also, in our brand business, we have continued to work on our significant energy storage equipment opportunity which we announced recently. Although delivery is expected in the latter part of this calendar year, we are already beginning discussions for future orders.

Unfortunately, one business that was challenged in the current quarter was our European tooling business. This business has seen a decline in tobacco orders and slowness in surfaces orders. Our surfaces business produces large engineered tooling generally considered capital goods. That tooling is used in the production of things like tissues, and non-woven materials like those used in the protective equipment industry, like medical gowns and face masks. Given the current environment, we expect this business to see strong orders in the coming months.

Regarding our industrial technology segment, not surprisingly, our warehouse automation business is seeing strong demand for our solutions as more people shop online and we are expecting to finish the year strong. Interest and need for our solutions has only increased as a result of the events of the last few months and we expect this business to continue to grow.

In our product identification business, also part of our industrial technology segment, after a very strong first half of the year, we are expecting to complete this year ahead of prior year because of our innovations in new account winds despite the challenges that we face. We also saw progress on our new product which we have been developing. Unfortunately, we have slowed but not stopped the R&D spending on this product during this period. However, the progress made today continues to assure us of our eventual success. This team continues to execute on a strong strategy.

All in all, our Company remains healthy. Continued focus on cost containment and cash generation should allow us to further reduce our debt during the balance of the year as we had committed earlier this year. While we may not be able to give clear guidance of our full year expectations at this time, we do not believe that our Company will be severely impacted by the pandemic. As you might expect, however, we remain cautious as there is much to be uncertain about.

The one thing that we are confident about, though, is that as a result of our business continuity efforts, we expect to come out of this challenge with renewed emphasis on our cost structure, including a strong focus on the real estate costs and the benefits of tele-commuting.

As we begin our planning for 2021, the lessons learned from this crisis have exposed further opportunities for improvement, which will benefit periods to come.

Now let's open it up for questions.

Operator: Thank you. We will now be conducting a question-and-answer session. If you would like a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. In the interest of time we ask that you please limit yourself to one question and one follow up. One moment please when we poll for your questions.

Our first question comes from the line of Daniel Moore with CJS Securities. Please proceed with your question.

Daniel Moore, CJS Securities: Joe, Steve, good morning. Hope you're well and thank you for taking questions.

Joe Bartolacci: Good morning, Dan.

Steve Nicola: Good morning, Dan.

Daniel Moore: Want to pull on the string you just finished with Joe, it's interesting to think about the changes in workflow that have come about as a result of the pandemic, particularly in SGK. Is it possible

at this stage to elaborate on potential cost savings, as well as real estate monetization opportunities that might come about as a result?

Joe Bartolacci: I can tell you what the ideas are Dan, but I don't—a little difficult to quantify at this point, we're still trying to get through these quarters as we go through. But the fact of the matter is, we have well over 1,000 people scattered around the world that are in production facilities that help us deliver the \$700 million or so that we produce in that in that segment. Those folks today are operating largely from home. That has taught us a few things. One is whether or not they need to be sitting side by side, two whether or not we have the systems in place to properly manage productivity and efficiency. But three, you begin to question the need for sitting across in tight quarters, all the folks in one location. Our total dollar spend on real estate around the world is significant. How much of that I actually need as we look forward is unsure. But what it does do, frankly, is open up more markets as potential places for us to provide services to because I don't necessarily need an office facility able to house 1,000 people.

A little early to quantify, but we think from a strategic standpoint, our investment in the ERP and some other investments we've made in technology, and frankly a very, very strong production technology team in that group has allowed us to look at what we can be on a virtual basis going forward.

Daniel Moore: Very helpful. And in the very short term and maybe just elaborate on your productivity there, can you keep up with the levels of productivity that you would normally have, or you expect at least some potential modest impact in the very short term?

Joe Bartolacci: Dan, I'd love to share with you the emails that we received from some of our largest accounts who are quite frankly thrilled at our ability to continue to deliver in these challenging times. I mean, the commentary from brands you would all know are wonderful to hear, our team has heard about them; and frankly, I would tell you that right now, we are continuing to see orders coming in at good rates. That would suggest that our clients are confident of our ability to deliver them on time and around the world for them as they need it. So we see no decline in our ability to do that.

Daniel Moore: Very good. And if the consumer trends shifts to more online purchasing, if that shift becomes more permanent for staples, grocery, things of that nature and ilk, how does the brand solutions offerings translate in that world?

Joe Bartolacci: Look, we are operators, not prognosticators. The fact of the matter is, is that we think there might be a structural shift back to the package. In all this move, you don't—at the end of the day, what you're finding is people reverting back to packaged foods, packaged products and the continuing evolution of product that you see on the shelf. That doesn't change as we go to e-commerce: it might in fact, accelerate. So it's hard to tell Dan, I would tell you that we're not in—we don't control the marketing budgets of our brands, but we do execute a large portion of what they do on the shelf, or on web.

Daniel Moore: Got it. Very helpful. And then I'll sneak one more in and jump out but cap ex for the remainder of the year. Given, probably a little bit of cost containment model and just more generally capital allocation priorities, I know debt pay down is a top one right now. What would you have to see in terms of stability in the markets or decline in leverage ratio before you would want to deploy capital more significantly the internal investments, M&A, etc.? Thank you for the color.

Joe Bartolacci: Right now, Dan, I would tell you we're not seeing that significant decline that we would curtail capital investments, our decisions to cut back on capital is more prudent than it is significant need. We're continuing to make appropriate capital investments at this time; maybe a more curtailed rate than we would normally have had. But I would tell you that things like the R&D spending that we're doing on our new product development continues, but at a slower rate. We're building a new facility in Germany to

handle our energy storage because we think there's significant opportunity. We recently opened a new Gravaris (phon) facility in Indonesia to be able to service that market for Gravaris cylinders.

We're making appropriate capital investments because we're not seeing the dramatic drops that you that we might have expected. But we are being very prudent with our capital constraints at this point in time, we would continue to focus our capital, as we said earlier, on paying down our debt for the balance of this year, and we think that could be a nice leverage point for us as we start to look forward at what we're going to do in 2021.

Daniel Moore: Very good.

Operator: Thank you. Our next question comes from the line of Liam Burk with B. Riley FBR. Please proceed with your question.

Liam Burk, B. Riley FBR: Thank you. Good morning, Joe, good morning, Steve.

Joe Bartolacci: Hi, Liam.

Steve Nicola: Good morning, Liam.

Liam Burk: Joe, could you give us a sense of the progress or where you are in terms of your cost saving initiatives that you laid out earlier this year? You mentioned that you're getting some of the benefit on SGK. But can you give a sense of how that's going and what the timing is?

Joe Bartolacci: Well, frankly, Liam, we are in the early stages, as much of our effort on there has been focused on trying to match demand of staffing with our volumes. I would also tell you that the cost initiatives at that time did not contemplate significant ability to telecommute; we'll have to look at that again. I would tell you that starting in '21, we should be able to pick this up as long as this thing normalizes again, so we believe there's still opportunity to continue to reduce our cost structure.

Liam Burk: Okay. And same with SGK. Tobacco sales were down, that business comes and goes. It's been very variable. Depending on the quarter. Were lack of sales on the tobacco front coronavirus-related or was that just a typical variability you see in that business?

Joe Bartolacci: I would tell you it's difficult for us to tell, we're getting very little guidance as those folks are also working from home and some are better at—some of our clients are better at working from home than others and I can't tell you whether our tobacco clients are there or not. The fact of the matter is the volume is down.

The bigger opportunity, Liam is what I said in my comments: our surface businesses down materially and the types of work we do in that business, like the non-woven materials that I mentioned on masks and gowns and things that, we think that has some good tailwind that will come out of this as we go forward. If not, we know of equipment being placed in China we have not even started to see the equipment that will be placed we believe in North America and South America. We're one of the few providers of those large capital pieces of equipment of tooling around the world. So we think there's great opportunity.

Liam Burk: Great. And then Steve, do you anticipate any benefits of lower materials costs, memorialization for the rest of the year.

Steve Nicola: For the balance of the year, Liam, given the cycle of purchase through our inventory production systems I would say that that's likely a next year benefit, not a current year benefit.

Liam Burk: Great. Okay. Thanks, Joe. Thank you, Steve.

Joe Bartolacci: Alright Liam.

Steve Nicola: Alright, thank you.

Operator: Thank you. There are no further questions at this time. I'd like to turn the call back over to Mr. Wilson for any closing remarks.

Bill Wilson: Okay, thank you, Michelle.

Thank you for joining us today and thank you for your interest in Matthews. For additional information about the Company and our financial results, please visit our website.

Stay safe and enjoy the rest of your day. Thank you.

Operator: Thank you. This concludes today's tele-conference. You may disconnect your lines this time. Thank you for your participation and have a wonderful day.